

Statement on
The Medicare-Endorsed Prescription Drug Discount Card Program

by

Karen Ignagni
President and CEO
AAHP-HIAA

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Good morning, Mr. Chairman and members of the committee. I am Karen Ignagni, President and CEO of AAHP-HIAA. I appreciate having this opportunity to discuss the private sector's role in making prescription drugs more affordable for seniors and persons with disabilities through the Medicare-Endorsed Prescription Drug Discount Card Program. AAHP-HIAA is the national trade association representing nearly 1,300 private sector companies providing health insurance coverage to more than 200 million Americans. Our members offer a broad range of health insurance products in the commercial marketplace and also participate in public programs. Medicare Advantage plans, Medicare cost contractors, and Medigap carriers are included in our broad-based membership.

Introduction

Our member companies enthusiastically support the Medicare Modernization Act of 2003 (MMA). We applaud Congress for enacting this historic legislation to improve choices and benefits for Medicare beneficiaries. We are also very pleased that the MMA establishes tax-free Health Savings Accounts (HSAs) as a new health care option for Americans under age 65.

Although the discount card program is the topic of today's hearing, I want to begin by focusing on the benefit enhancements and cost savings that Medicare beneficiaries are now receiving, effective March 1, as a result of the additional funding the MMA provided for the Medicare Advantage program in 2004.

For the past five years, AAHP-HIAA and our members have urged Congress to address the funding crisis in the private sector Medicare program. During most of these years, funding for the benefits of a significant majority of private health plan enrollees increased by only 2 percent annually, at a time when health care costs were increasing by 8 to 10 percent annually. Congress addressed this problem in a bipartisan fashion by providing funds to stabilize private health plan benefits and choices. This funding increase was included in the MMA largely because a core group of 130 Members of Congress – 81 Democrats and 49 Republicans – worked hard to build support for this priority. Three members of this committee – Senators Santorum, Wyden, and Smith – deserve special credit for working to ensure that these funds were passed into law. Our

members are also grateful to Senators Breaux and Hatch for their work as members of the Medicare conference committee, and we thank many other committee members who voted for final passage of this legislation.

Just as Congress did its part to strengthen Medicare for seniors and individuals with disabilities, I am proud to report that our members have followed through by using the 2004 funding increase to expand benefits and reduce costs for the beneficiaries they serve. The Centers for Medicare and Medicaid Services (CMS) has reported that 95 percent of the additional funding is being used to help beneficiaries this year through reduced premiums and cost-sharing, increased benefits, and enhanced access to providers. The remaining five percent has been put in a reserve fund to stabilize benefits in 2005.

Just last week, 3.7 million Medicare Advantage enrollees began to receive increased benefits as a direct result of the MMA. In addition, premiums were reduced for 1.9 million enrollees and co-payments were reduced for 2 million enrollees in Medicare Advantage plans. Overall, premiums for all Medicare Advantage enrollees nationwide declined by an average of 26 percent. These improvements are clear evidence that the MMA is providing significant value for our nation's seniors.

Beginning June 1, beneficiaries will receive further assistance under another important initiative established by the MMA: the Medicare-Endorsed Prescription Drug Discount Card Program. AAHP-HIAA and our member companies strongly support the steps this program will take to reduce prescription drug costs for beneficiaries – while providing up to \$600 annually in added assistance for those with low incomes – in the time that remains before a prescription drug benefit is available to all Medicare beneficiaries beginning in January 2006.

Many of our member companies have submitted applications to participate as sponsors of discount drug cards under this new program. CMS has reported that among the 106 entities that have submitted applications, approximately half are from Medicare Advantage and Medicare cost plans that are planning to offer discount cards exclusively to their own enrollees. In addition, a number of our member companies have submitted applications to sponsor nationwide

or statewide discount drug cards that will be broadly available to both Medicare fee-for-service enrollees and private health plan enrollees. Also, other health plans and Medigap carriers are exploring opportunities to collaborate with general sponsors in offering the cards to their enrollees and policyholders.

Our member companies have demonstrated their commitment to meeting the health care needs of Medicare beneficiaries for more than 20 years. As long-time participants in the private sector Medicare program – now known as “Medicare Advantage” – private sector health plans currently provide comprehensive health coverage to 4.6 million seniors and persons with disabilities.

By covering services that are not included in the Medicare fee-for-service benefit package, Medicare Advantage and Medicare cost plans serve as a crucial health care safety net for many low-income and minority beneficiaries who cannot afford the high out-of-pocket costs they would incur under the Medicare fee-for-service program.

Our Medigap members also play an important role by offering coverage of Medicare fee-for-service costs so that Medicare-covered services are more accessible. For 10 million beneficiaries, Medigap policies provide affordable protection against high out-of-pocket health care costs.

Looking to the future, our members are eager to further expand their role in serving Medicare beneficiaries by participating in the prescription drug discount card program in 2004 and 2005. We view this program as a strong framework for future efforts, beginning in January 2006, to launch private sector participation in the Medicare Part D Prescription Drug Program and to expand participation in the Medicare Advantage program.

Private Sector Participation in the Discount Card Program

Our member companies are planning to participate in the Medicare-Endorsed Prescription Drug Discount Card Program in several ways:

- **General Sponsors:** Companies participating as statewide or nationwide sponsors will make their cards available to all eligible Medicare beneficiaries who live in their service areas. Discount cards offered by these sponsors will be available to beneficiaries in the Medicare fee-for-service system and to enrollees in Medicare Advantage and Medicare cost plans that do not sponsor discount cards, as well as beneficiaries with Medigap coverage.
- **Exclusive Sponsors:** Medicare Advantage and Medicare cost plans will be permitted to participate as exclusive sponsors. This means that they may make discount cards available to beneficiaries they cover through their health plans and, additionally, that Medicare Advantage and Medicare cost enrollees may only choose the discount card offered by their health plan. Low-income Medicare managed care enrollees who are eligible to receive financial assistance may use these funds to help cover the cost of copayments and coinsurance required under their plan's prescription drug benefits. These subsidies may also be used to supplement the prescription drug benefits that low-income enrollees receive through their plans.
- **Collaboration With Sponsors:** Medicare Advantage and Medicare cost plans and Medigap carriers that do not sponsor Medicare-endorsed cards have the option of developing co-marketing agreements with companies that do sponsor them. We anticipate that these agreements will include a role for non-sponsors in conducting beneficiary outreach and education initiatives.

Private Sector Activities to Make the Program Work for Beneficiaries

AAHP-HIAA member companies currently are developing a number of initiatives that will make the Medicare-Endorsed Prescription Drug Discount Card Program work better for enrollees. Even though CMS is not planning to approve the applications of discount card sponsors until later this month, many health plans and insurers are already taking steps to ensure the success of this program.

Our members are already designing training programs to prepare their customer service staffs to answer beneficiary questions about the new program. Health plans and insurers are also developing a wide range of information resources to help beneficiaries become more informed consumers. The private sector is developing these initiatives with the intention that they eventually will be coordinated with CMS' beneficiary education and outreach programs.

Many of these efforts are built on existing initiatives that are being enhanced and coordinated with the new program. These resources include:

- preparing written materials that may include “Frequently Asked Questions” about the new program, as well as detailed information about how to take advantage of the discounts and transitional assistance available through general and exclusive cards and how these cards work in conjunction with Medicare Advantage plan benefits;
- conducting listening sessions with Medicare Advantage enrollees to ensure that their questions and information needs are being addressed;
- e-mail access to pharmacists and others who are available to answer beneficiary questions;
- webpages offering clinical information about prescription drugs, and facts that will empower beneficiaries to become more informed consumers; and
- making call centers and other resources available to facilitate contacts between patients and physicians about clinically sound, cost effective alternatives to prescribed medications.

Our members are also poised to increase awareness among beneficiaries about the possibility that they may be eligible to receive up to \$600 annually in transitional assistance, in both 2004 and 2005, under the discount card program. These efforts will expand existing programs that currently focus on educating low-income beneficiaries about other forms of assistance that are available to them (such as QMB and SLMB programs) to include information designed to ensure that they can take advantage of the transitional assistance under Medicare-endorsed cards.

Implementation Through a Strong Public-Private Partnership

The MMA requires the discount card program to be implemented within six months of the law's enactment. While this is a very fast timeline, CMS has dedicated significant resources to working with the private sector to ensure that discounted prices on prescription drugs and low-income assistance will be available to beneficiaries by June 1. Our member companies are also pleased that the agency is demonstrating a commitment to establishing a strong public-private partnership that will provide a foundation for implementation of the Medicare Part D Prescription Drug Program. CMS' efforts have included:

- Just two days after the MMA was signed into law, CMS announced an interim final rule providing for implementation of the discount card program.
- Within two weeks of the law's enactment, the agency held a conference to provide important information to potential card sponsors.
- CMS extended the deadline for submission of drug discount card marketing materials to provide a better opportunity for applicants to complete their development.
- CMS has been very responsive to questions that have been raised about the program. To address unresolved issues and to answer the many questions raised by applicants, CMS has conducted numerous conference calls and posted information on its website.
- The agency has also acted promptly in reviewing draft marketing materials and helping potential card sponsors resolve information technology issues.

AAHP-HIAA and our members commend the agency for maintaining open lines of communication and working hard to provide timely responses to myriad implementation questions.

Even under the best of circumstances, it is inevitable that challenges will arise when a program of this size is implemented in such a short time period. For example, in providing beneficiary information, coordination between CMS and card sponsors in explaining the new program to beneficiaries will be critical. In operationalizing the program, card sponsors face the significant task of fully understanding and complying with program requirements that differ in some respects from private market practices.

Additionally, it is important to ensure prompt and effective communications between the computer systems of CMS and of card sponsors, thus allowing sponsors to determine whether enrollees are eligible for low-income assistance and to receive federal subsidies on behalf of eligible enrollees.

In order to successfully launch the discount card program by the June 1 implementation deadline, AAHP-HIAA and our member companies will continue to work with CMS to meet these and other challenges over the next several months.

Beneficiaries Are Well-Served by Private Sector Participation in Medicare

The discount card program, along with other key components of the MMA, establishes an important role for the private sector. We believe this is good news for beneficiaries, considering that the private sector has a strong track record of providing high value under the Medicare program.

Building upon their past successes, our members will use private sector pharmacy benefit management tools and techniques in the discount card program over the next two years and in the prescription drug program beginning in 2006. These tools increase beneficiary access to prescription drugs by reducing out-of-pocket costs and improve quality by reducing medication errors. They include:

- programs that encourage the use of generic drugs;

- step therapy programs that promote proven drug therapies before moving to newer, different treatments that are not necessarily better;
- negotiated discounts with pharmacies that participate in a plan's network;
- disease management techniques that include practice guidelines to encourage the use of the most appropriate medications; and
- appropriate use of mail-service pharmacies.

Although government programs do not always use all of these techniques, a number of studies have demonstrated that the use of these techniques by private sector health plans is beneficial to enrollees in public programs. For example, a 2003 study, conducted by Associates and Wilson on behalf of AAHP-HIAA, found that the PACE program in Pennsylvania – the largest state pharmacy assistance program in the nation – could save up to 40 percent by adopting the full range of private sector pharmacy benefit management techniques.

Another 2003 study – conducted by the Lewin Group for the Center for Health Care Strategies – found that Medicaid managed care plans reduced prescription drug costs by 15 percent below the level states would otherwise have experienced under Medicaid fee-for-service programs. Health plans achieved these savings by performing drug utilization review, establishing pharmacy networks, and encouraging patients to take the most appropriate medications.

In addition, the General Accounting Office (GAO) has reported that pharmacy benefit management techniques used by health plans in the Federal Employees Health Benefits Program (FEHBP) resulted in savings of 18 percent for brand-name drugs and 47 percent for generic drugs, compared to the average cash price customers would pay at retail pharmacies.

These findings demonstrate that the private sector is well-positioned to use its experience and capabilities to make prescription drugs more affordable for a broader range of Medicare beneficiaries. We are excited about the new opportunities our members will have to better serve

Medicare beneficiaries, beginning this year with the discount card program and continuing with the Part D drug program in 2006.

In addition to improving access to safe, affordable prescription drugs, our members have longstanding experience providing comprehensive health coverage to Medicare beneficiaries. Let me briefly review several examples of how beneficiaries are well-served by our members' innovative practices in the Medicare Advantage program.

Private sector plans have applied the concept of disease management programs to their Medicare Advantage plans to improve quality of care for beneficiaries with chronic conditions by focusing on the comprehensive care of patients over time, rather than individual episodes of care. These programs provide specialized care to beneficiaries who have diabetes, congestive heart failure, end-stage renal disease, depression, cancer, and other medical conditions that commonly afflict the elderly. Currently, disease management programs are available to only a small number of Medicare fee-for-service enrollees under demonstration initiatives.

Private sector health plans and insurers also play an important role in providing health coverage to beneficiaries who are financially vulnerable. For many beneficiaries who are not eligible for retiree health benefits or Medicaid, the Medicare Advantage program serves as a health care safety net by providing comprehensive, affordable coverage that is not available under the Medicare fee-for-service program. Studies show that low-income and minority beneficiaries are more likely to enroll in Medicare Advantage plans than other beneficiaries.

The private sector also helps to keep out-of-pocket costs low for beneficiaries. A Rand study published in May 2003 found that Medicare health plans, when compared to the Medicare fee-for-service program, reduced out-of-pocket health care costs by \$809 annually for the average beneficiary and by \$2,160 annually for beneficiaries with the highest health care costs.

Enhanced benefits are another advantage of private sector participation in Medicare. CMS recently reported that 80 percent of all Medicare Advantage enrollees receive some form of

prescription drug coverage in 2004. This is true even though government payments to plans do not yet include funding for prescription drugs.

These facts clearly demonstrate that beneficiaries are well-served by private sector participation in Medicare. With respect to both the quality and affordability of health care, the private sector has a strong track record that bodes well for its involvement in the discount card program as well as longer-term Medicare reforms.

Conclusion

We are confident that a strong public-private partnership will enable the Medicare-Endorsed Prescription Drug Discount Card Program to fulfill its potential to provide beneficiaries with more affordable prescription drugs over the next two years and lay the groundwork for the Medicare prescription drug benefit that will become available in 2006.

The fact that 106 private sector entities have submitted applications for this program is a clear indication that the private sector is committed to its success. Moreover, many of our members have told us that their decisions to sponsor discount cards are also motivated by their interest in expanding their participation in Medicare in 2006 as both prescription drug plans and Medicare Advantage plans.

In conclusion, I want to thank committee members for your role in establishing the discount card program and for closely monitoring implementation of this program at this crucial stage of the process. Please be assured that AAHP-HIAA and our member companies are strongly committed to making the program work for seniors and individuals with disabilities.